



Peterson
Allred
Jackson

CITY OF RIVER HEIGHTS

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2006**

**With Comparative Totals
For June 30, 2005**

▪ Certified Public Accountants
Business Consultants

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INTRODUCTORY SECTION

River Heights City

Mayor: William Baker
Recorder: Sheila Lind
Treasurer: Annette Smith
Public Works: Kent Parker

City Council
Gladys Ann Atwood
Mary Barrus
Robert Gines
O. Brent Greenhalgh
Blake Wright

November 3, 2006

River Heights City Council
River Heights, Utah

Council:

It is with great pleasure that the financial statements for the City of River Heights for the year ended June 30, 2006, is presented.

In addition to the fund financial information currently presented in the City's financial statements, this report includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net assets of the City including all capital assets (including infrastructure) and the Statement of Activities that shows the cost of providing government services.

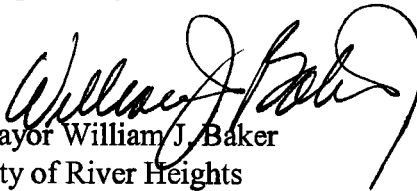
State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. These financial statements are hereby issued and submitted to you for the fiscal year ended June 30, 2006, in accordance with these requirements.

This report consists of management's representations concerning the finances of the City of River Heights. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established an internal control framework that is designed to both protect the assets of the City from loss, theft, or misuse and to allow for the compiling of sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's internal control procedures have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of management's knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Peterson Allred Jackson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of River Heights for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

I wish to express my appreciation to all members of the City who assisted and contributed to the preparation of this report.

Respectfully submitted,


Mayor William J. Baker
City of River Heights

FINANCIAL SECTION

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Allred
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Business Consultants

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of River Heights
River Heights, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of River Heights, Utah (the City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 3, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results for our audit.

The Management's Discussion and Analysis on pages 10-14, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Impact Fees listed in the table of contents is presented for purposes of additional analysis of the financial statements of the City. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Peterson Alfred Jackson

November 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of River Heights, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of River Heights for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- The total net assets of the City of River Heights increased approximately 11% to \$1,913,067.
- The total net assets of \$1,913,067 is made up of \$1,047,214 in capital assets net of related debt and \$865,853 in other net assets.
- Total long-term liabilities of the City were reduced by \$84,504 of principal payments.
- Governmental-type activities total net assets increased \$116,529.
- Business-type activities total net assets increased \$74,198.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

- The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of River Heights is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of River Heights that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 16 & 17 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of River Heights also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund and the Capital Projects Fund.

- Proprietary funds - The City of River Heights maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of River Heights uses enterprise funds to account for its Water Utility and Wastewater Collection Utility.

As determined by generally accepted accounting principles, all enterprise funds meet the criteria of major fund classification.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of River Heights, assets exceed liabilities by \$1,913,067.

By far the largest portion of the City's net assets (55%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Current and other assets	\$ 608,141	\$ 459,950	\$ 606,296	\$ 324,421
Capital assets	364,924	455,027	1,445,290	1,490,515
Total assets	973,065	914,977	2,051,586	1,814,936
Other liabilities	110,865	111,802	237,719	48,627
Long-term debt outstanding	-	57,504	763,000	790,000
Total liabilities	110,865	169,306	1,000,719	838,627
Net assets:				
Invested in capital assets, net of debt	364,924	397,523	682,290	700,515
Restricted	439,178	-	162,921	139,777
Unrestricted	58,098	348,148	205,656	136,377
Total net assets	\$ 862,200	\$ 745,671	\$ 1,050,867	\$ 976,669

CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
Revenues:				
Program revenues:				
Charges for services	\$ 138,399	\$ 148,173	\$ 331,881	\$ 345,053
Operating grants & contributions	2,459	50,185	-	-
Capital grants & contributions	53,878	-	-	-
General revenues:				
Property taxes	85,710	77,168	-	-
Other taxes	219,550	168,450	-	-
Investment income	14,691	3,257	12,515	9,269
Total revenues	514,687	447,233	344,396	354,322
Expenses:				
General government	109,622	108,085	-	-
Public Safety	60,682	60,457	-	-
Highways/public improvements	156,102	161,569	-	-
Parks & recreation	71,752	48,679	-	-
Interest on long term debt	-	4,204	-	-
Water	-	-	194,329	155,057
Wastewater collection	-	-	75,869	75,540
Total expenses	398,158	382,994	270,198	230,597
Increase in net assets before transfers	116,529	64,239	74,198	123,725
Transfers	-	47,000	-	(47,000)
Increase (decrease) in net assets	116,529	111,239	74,198	76,725
Net assets, beginning	745,671	634,432	976,669	899,944
Net assets, ending	\$ 862,200	\$ 745,671	\$ 1,050,867	\$ 976,669

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

As of the June 30, 2006, the City's governmental funds (General and Capital Projects) reported combined fund balances of \$497,276. This represents an increase of \$149,128 (43%) over last year's ending balances.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 55% of total general fund revenues. The largest element of taxes is sales taxes as it has been for the last several years. It represents 45% of total tax revenues and represents 25% of total general fund revenues. This compares with 20% in the prior fiscal year ended June 30, 2005.

As stated earlier, the City maintains several enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provides the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

Significant changes in the governmental funds include an increase in revenues due to continuing building and growth and the sale of a rental home with the related payoff in debt.

Significant changes in business-type activities include bond principal payments of \$27,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year the General Fund original budget was amended from an original budget expenditure total of \$423,700 to a final budget of \$423,700 (0%). Changes were made within expenditure line items but did not change the budget in total.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets- The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$1,810,214 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, etc.), and machinery and equipment. The total decrease in the City's investment in fixed assets for the current year was 7% (due to depreciation and sales of assets exceeding new purchases).

Major capital asset events during the current fiscal year included the following:

- \$3,425 for fencing and cabinets.
- \$2,972 for water improvements

CITY OF RIVER HEIGHTS CAPITAL ASSETS

	Governmental Activities	Business-type Activities
Land	\$ 178,719	\$ --
Buildings	289,322	--
Improvements	--	2,296,252
Infrastructure	20,121	--
Machinery & equipment	101,184	--
Less: Accumulated depreciation	<u>(224,422)</u>	<u>(850,962)</u>
Total	<u>\$ 364,924</u>	<u>\$ 1,455,290</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt - At June 30, 2006, the City had total bonded debt outstanding of \$763,000. Of this amount \$763,000 is considered to be revenue bonds which are secured solely by specific revenue sources.

The City's total debt decreased by \$27,000 during the fiscal year.

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

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CITY OF RIVER HEIGHTS
STATEMENT OF NET ASSETS
JUNE 30, 2006
With Comparative Totals for 2005

ASSETS	Governmental	Business-type	Memorandum Totals	
	Activities	Activities	2006	2005
Cash	\$ 49,131	\$ 394,290	\$ 443,421	\$ 596,561
Account receivable	21,763	49,085	70,848	75,465
Taxes receivable	98,069	-	98,069	93,199
Restricted taxes receivable	11,330	-	11,330	9,987
Restricted cash	427,848	162,921	590,769	139,777
Capital assets				
Land	178,719	-	178,719	255,719
Buildings	289,322	-	289,322	287,392
Improvements	-	2,296,252	2,296,252	2,293,280
Machinery & equipment	101,184	-	101,184	101,184
Infrastructure	20,121	-	20,121	18,626
Less: Accumulated depreciation	(224,422)	(850,962)	(1,075,384)	(1,010,659)
Total assets	<u>\$ 973,065</u>	<u>\$ 2,051,586</u>	<u>\$ 3,024,651</u>	<u>\$ 2,860,531</u>
LIABILITIES				
Due to pooled cash	-	188,529	188,529	130,618
Accounts payable	34,682	9,126	43,808	48,041
Interest payable	-	33,764	33,764	34,386
Deposits due customers	-	6,300	6,300	4,161
Bonds payable:				
Due within one year	-	29,000	29,000	84,504
Due in more than one year	-	734,000	734,000	763,000
Deferred revenue	76,183	-	76,183	73,481
Total liabilities	<u>110,865</u>	<u>1,000,719</u>	<u>1,111,584</u>	<u>1,138,191</u>
NET ASSETS				
Invested in capital assets, net of related debt	364,924	682,290	1,047,214	1,098,038
Restricted for:				
Debt service	-	100,809	100,809	139,777
Roads and city improvements	439,178	62,112	501,290	-
Unrestricted	58,098	205,656	263,754	484,525
Total net assets	<u>\$ 862,200</u>	<u>\$ 1,050,867</u>	<u>\$ 1,913,067</u>	<u>\$ 1,722,340</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RIVER HEIGHTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005

	Program Revenues			Net Governmental Activities	Business-type Activities	Memorandum Totals	
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions		2006	2005
Governmental activities:							
General government	\$ 109,622	\$ 11,243	\$ -	\$ -	\$ (98,379)	\$ (98,379)	\$ (90,275)
Public Safety	60,682	22,154	551	-	(37,977)	(37,977)	(47,324)
Highways & public improvements	156,102	98,750	-	53,878	(3,474)	(3,474)	(15,229)
Parks, recreation & public property	71,752	6,252	1,908	-	(63,592)	(63,592)	(27,604)
Interest on long term debt	-	-	-	-	-	-	(4,204)
Total governmental activities	398,158	138,399	2,459	53,878	(203,422)	(203,422)	(184,636)
Business-type activities:							
Water	194,329	236,161	-	-	41,832	41,832	87,995
Wastewater collection	75,869	95,720	-	-	19,851	19,851	26,461
Total business-type activities	270,198	331,881	-	-	61,683	61,683	114,456
General Revenues:							
Taxes:							
Property taxes levied for general purposes				85,710	-	85,710	77,168
Other taxes				8,892	-	8,892	1,720
Franchise taxes				73,625	-	73,625	57,895
General sales taxes & highway sales taxes				137,033	-	137,033	108,835
Investment income				14,691	12,515	27,206	12,526
Total general revenues & transfers				319,951	12,515	332,466	258,144
Change in net assets				116,529	74,198	190,727	187,964
Net assets - beginning				745,671	976,669	1,722,340	1,534,376
Net assets - ending				\$ 862,200	\$ 1,050,867	\$ 1,913,067	\$ 1,722,340

The notes to the financial statements are an integral part of this statement.

**CITY OF RIVER HEIGHTS
GOVERNMENTAL FUNDS TYPE
BALANCE SHEET
JUNE 30, 2006
With Comparative Totals for 2005**

			Memorandum Totals	
	General	Capital Projects Fund	Governmental Funds 2006	Governmental Funds 2005
ASSETS				
Cash	\$ 49,131	\$ -	\$ 49,131	\$ 70,406
Accounts receivable	21,763	-	21,763	26,881
Taxes receivable	98,069	-	98,069	93,199
Restricted assets:				
Cash	4,049	423,799	427,848	259,477
Taxes receivable	11,330	-	11,330	9,987
Total assets	<u>\$ 184,342</u>	<u>\$ 423,799</u>	<u>\$ 608,141</u>	<u>\$ 459,950</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 34,682	\$ -	\$ 34,682	\$ 38,321
Deferred revenue	76,183	-	76,183	73,481
Total liabilities	<u>110,865</u>	<u>-</u>	<u>110,865</u>	<u>111,802</u>
Fund Balance:				
Reserved for roads	11,330	-	11,330	9,987
Reserved for Capital projects fund	-	423,799	423,799	251,334
Reserved for impact fees	4,049	-	4,049	-
Unreserved - undesignated	58,098	-	58,098	86,827
Total fund balance	<u>73,477</u>	<u>423,799</u>	<u>497,276</u>	<u>348,148</u>
Total liabilities and fund balance	<u>\$ 184,342</u>	<u>\$ 423,799</u>		
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			364,924	455,027
Long term liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds.			-	(57,504)
Net assets reconciled to the Statement of Activities			<u>\$ 862,200</u>	<u>\$ 745,671</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF RIVER HEIGHTS
GOVERNMENTAL FUNDS TYPE
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005**

			Memorandum Totals	
	General	Capital Projects Fund	Governmental Funds 2006	Governmental Funds 2005
Revenues:				
Taxes & special assessments	\$ 305,260	\$ -	\$ 305,260	\$ 245,618
Licenses and permits	11,905	-	11,905	12,690
Intergovernmental	56,337	-	56,337	50,185
Charges for services	117,726	-	117,726	171,059
Fines & forfeitures	6,352	-	6,352	5,120
Investment income	-	14,691	14,691	4,249
Miscellaneous	54,797	-	54,797	-
Total revenues	552,377	14,691	567,068	488,921
Expenditures:				
Current:				
General government	107,373	-	107,373	152,998
Public safety	60,682	-	60,682	60,457
Highways & public improvements	152,020	-	152,020	184,287
Parks, recreation & public property	96,265	1,600	97,865	94,201
Total expenditures	416,340	1,600	417,940	491,943
Excess (deficiency) of revenues over expenditures	136,037	13,091	149,128	(3,022)
Other financing sources (uses):				
Transfers in (out)	(159,374)	159,374	-	47,000
Total other financing sources	(159,374)	159,374	-	47,000
Net change in fund balances	(23,337)	172,465	149,128	43,978
Fund balances, beginning of year	96,814	251,334	348,148	304,170
Fund balances, end of year	\$ 73,477	\$ 423,799	\$ 497,276	\$ 348,148

The notes to the financial statements are an integral part of this statement.

**CITY OF RIVER HEIGHTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds	\$ 149,128
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Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of revenues, expenditures, and changes in fund balance because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period in addition to contributed capital.	(90,103)
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Governmental funds report debt service payments as expenditures. In the statement of activities, the principal payments reduce the amount of the liability.	<u>57,504</u>
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Change in net assets of governmental activities	<u><u>\$ 116,529</u></u>
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CITY OF RIVER HEIGHTS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
REVENUES:				
Taxes:				
General property taxes	\$ 82,500	\$ 82,500	\$ 85,710	\$ 3,210
General sales & use taxes	105,000	105,000	137,033	32,033
Franchise taxes	57,200	57,200	73,625	16,425
Other taxes	-	-	8,892	8,892
Total taxes	244,700	244,700	305,260	60,560
Licenses & permits:				
Building permits	-	-	8,827	8,827
Other licenses & permits	2,500	2,500	3,078	578
Total licenses & permits	2,500	2,500	11,905	9,405
Intergovernmental revenues:				
Class "C" roads	56,200	56,200	53,878	(2,322)
State liquor allotment	500	500	551	51
State/local grants	-	-	1,908	1,908
Total intergovernmental revenues	56,700	56,700	56,337	(363)
Charges for services:				
Sanitation	80,000	80,000	89,262	9,262
Parks and public property	2,820	2,820	2,302	(518)
Communication center	11,000	11,000	12,724	1,724
Storm drainage	12,500	12,500	7,738	(4,762)
Impact fees	9,480	9,480	5,700	(3,780)
Total charges for services	115,800	115,800	117,726	1,926
Fines & forfeitures:				
Court fines	4,000	4,000	6,352	2,352
Miscellaneous:				
Sale of fixed assets	-	-	52,381	52,381
Other	-	-	2,416	2,416
Total miscellaneous	-	-	54,797	54,797
Total revenues	\$ 423,700	\$ 423,700	\$ 552,377	\$ 128,677

The notes to the financial statements are an integral part of this statement.

**CITY OF RIVER HEIGHTS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
(CONTINUED)
YEAR ENDED JUNE 30, 2006**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
EXPENDITURES				
General government:				
Personnel	\$ 80,640	\$ 79,840	\$ 86,513	\$ (6,673)
Planning and zoning	2,550	3,300	3,094	206
Non-departmental	57,020	30,950	15,941	15,009
Capital outlay	-	-	1,825	(1,825)
Total general government	140,210	114,090	107,373	6,717
Public safety:				
Fire protection	24,000	24,000	24,339	(339)
Law enforcement	8,700	17,660	8,751	8,909
Animal control	8,700	8,900	9,016	(116)
Crossing guards	6,300	6,000	5,712	288
911 dispatch	11,000	13,000	12,864	136
Total public safety	58,700	69,560	60,682	8,878
Highways & public improvements:				
Streets	121,990	119,550	67,285	52,265
Capital outlay	-	-	-	-
Sanitation	76,000	85,000	84,735	265
Total highways & improvements	197,990	204,550	152,020	52,530
Parks, recreation & public property:				
Parks and open spaces	20,750	30,000	31,651	(1,651)
Recreation	-	-	41	(41)
Community development	6,050	5,500	7,069	(1,569)
Cemeteries	-	-	57,504	(57,504)
Total parks, recreation & public property	26,800	35,500	96,265	(60,765)
Transfers	-	-	159,374	(159,374)
TOTAL EXPENDITURES & OTHER USES	423,700	423,700	575,714	(152,014)
Net change in fund balance	-	-	(23,337)	(23,337)
Fund balance at beginning of year	96,814	96,814	96,814	-
Fund balance at end of year	\$ 96,814	\$ 96,814	\$ 73,477	\$ (23,337)

The notes to the financial statements are an integral part of this statement.

**CITY OF RIVER HEIGHTS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
With Comparative Totals for 2005**

	<u>WATER UTILITIES</u>	<u>WASTEWATER COLLECTION</u>	<u>Memorandum Totals</u>	
			<u>2006</u>	<u>2005</u>
ASSETS				
Current assets:				
Pooled cash & cash equivalents	\$ -	\$ 394,290	\$ 394,290	\$ 266,678
Accounts receivable	32,685	16,400	49,085	48,584
Restricted cash	114,099	48,822	162,921	139,777
Total current assets	146,784	459,512	606,296	455,039
Capital assets				
Improvements other than building	1,780,422	515,830	2,296,252	2,293,280
Less accumulated depreciation	(434,686)	(416,276)	(850,962)	(802,765)
Total capital assets	1,345,736	99,554	1,445,290	1,490,515
TOTAL ASSETS	<u>1,492,520</u>	<u>559,066</u>	<u>2,051,586</u>	<u>1,945,554</u>
LIABILITIES				
Current liabilities:				
Due to pooled cash	188,529	-	188,529	130,618
Accounts payable	6,648	2,478	9,126	9,720
Interest payable	33,764	-	33,764	34,386
Customer deposits	6,300	-	6,300	4,161
Total current liabilities	235,241	2,478	237,719	178,885
Long-term liabilities:				
Bonds payable - due within a year	29,000	-	29,000	27,000
Due in more than one year	734,000	-	734,000	763,000
Total long -term liabilities	763,000	-	763,000	790,000
Total liabilities	<u>998,241</u>	<u>2,478</u>	<u>1,000,719</u>	<u>968,885</u>
NET ASSETS				
Invested in capital assets, net of related debt	582,736	99,554	682,290	700,515
Restricted	114,099	48,822	162,921	139,777
Unrestricted	(202,556)	408,212	205,656	136,377
Total net assets	<u>\$ 494,279</u>	<u>\$ 556,588</u>	<u>\$ 1,050,867</u>	<u>\$ 976,669</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RIVER HEIGHTS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
With Comparative Totals for 2005

	<u>WATER UTILITIES</u>	<u>WASTEWATER COLLECTION</u>	<u>Memorandum Totals</u>	
			<u>2006</u>	<u>2005</u>
OPERATING REVENUES:				
Charges for services	\$ 236,161	\$ 93,720	\$ 329,881	\$ 327,928
Other operating revenues	-	2,000	2,000	17,125
Total operating revenues	<u>236,161</u>	<u>95,720</u>	<u>331,881</u>	<u>345,053</u>
OPERATING EXPENSES				
Salary and wages	25,149	15,922	41,071	37,691
Other operating expenses	60,074	55,956	116,030	105,201
Supplies	24,927	1,095	26,022	26
Depreciation	45,301	2,896	48,197	46,371
Total operating expenses	<u>155,451</u>	<u>75,869</u>	<u>231,320</u>	<u>189,289</u>
Operating income	<u>80,710</u>	<u>19,851</u>	<u>100,561</u>	<u>155,764</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	-	12,515	12,515	9,269
Interest charges	(38,878)	-	(38,878)	(41,308)
Transfer out	-	-	-	(47,000)
Total non-operating revenue (expense)	<u>(38,878)</u>	<u>12,515</u>	<u>(26,363)</u>	<u>(79,039)</u>
Change in net assets	41,832	32,366	74,198	76,725
Total net assets - beginning	<u>452,447</u>	<u>524,222</u>	<u>976,669</u>	<u>899,944</u>
Total net assets -ending	<u>\$ 494,279</u>	<u>\$ 556,588</u>	<u>\$ 1,050,867</u>	<u>\$ 976,669</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF RIVER HEIGHTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006
With Comparative Totals for 2005**

	<u>WATER UTILITIES</u>	<u>WASTEWATER COLLECTION</u>	<u>Memorandum Totals</u>	
			<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 235,790	\$ 95,590	\$ 331,380	\$ 339,082
Payments to suppliers	(64,759)	(34,682)	(99,441)	(62,802)
Payments to employees	(25,149)	(15,922)	(41,071)	(37,691)
Payments for interfund services used	(20,844)	(20,844)	(41,688)	(41,688)
Net cash provided (used) by operating activities	<u>125,038</u>	<u>24,142</u>	<u>149,180</u>	<u>196,901</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfer to general fund	-	-	-	(47,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(2,972)	-	(2,972)	(200,779)
Principal paid on capital debt	(27,000)	-	(27,000)	(25,000)
Interest paid on capital debt	(38,878)	-	(38,878)	(40,750)
Net cash provided (used) by capital and related financing activities	<u>(68,850)</u>	<u>-</u>	<u>(68,850)</u>	<u>(266,529)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	-	12,515	12,515	9,269
Net increase (decrease) in cash and cash equivalents	56,188	36,657	92,845	(107,359)
Cash and equivalents at beginning of year	<u>(130,618)</u>	<u>406,455</u>	<u>275,837</u>	<u>383,196</u>
Cash and equivalents at end of year	<u>\$ (74,430)</u>	<u>\$ 443,112</u>	<u>\$ 368,682</u>	<u>\$ 275,837</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 80,710	\$ 19,851	\$ 100,561	\$ 155,764
Adjustments to reconcile net income from operations to net cash provided by operating activities:				
Depreciation	45,301	2,896	48,197	46,371
Changes in assets & liabilities:				
Decrease (increase) in receivables	(371)	(130)	(501)	(5,971)
Increase (decrease) in accruals	(602)	1,525	923	737
Total adjustments	<u>44,328</u>	<u>4,291</u>	<u>48,619</u>	<u>41,137</u>
Net cash provided (used) by operating activities:	<u>\$ 125,038</u>	<u>\$ 24,142</u>	<u>\$ 149,180</u>	<u>\$ 196,901</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RIVER HEIGHTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1: Summary of significant accounting policies

Reporting entity

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparations of the accompanying financial statements.

The City has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by, or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. The City participates in the Cache Valley Transit District (CVTD) and the Cache Metropolitan Planning Organization (CMPO), which are separate legal entities which are not controlled or dependent upon the City. However, the City has imposed a 1/4 of 1% sales tax to fund the CVTD. The Utah State Auditor's Office has determined that the sales tax is in effect collected by the CVTD and that the related revenue and expenditures should be excluded from these financial statements.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. Interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The City applies expenses for restricted resources first when both restricted and unrestricted net assets are available.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-services expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Sales taxes, franchise taxes and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition of capital facilities and equipment by the City.

The City reports the following major proprietary funds:

The Water Utility accounts for the activities of the City's water production, treatment, and distribution operations.

The Wastewater Collection fund accounts for the operation and maintenance of the City-owned collection system for wastewater.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fixed assets and long-term liabilities

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets used is charged as an expense against their operations. Accumulated depreciation is reported on the financial statements. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Water and sewer system improvements	10-40 years
Buildings and improvements	20-40 years
Machinery and equipment	5-10 years
Roads and infrastructure	40 years

GASB Statement No. 34 requires the City to report infrastructure assets effective with the beginning of the adoption year with the option of reporting its pre-existing infrastructure assets retroactively. Infrastructure assets includes roads, bridges, underground pipe, (other than that related to utilities), etc. The City has elected not to report its infrastructure assets retroactively.

Property Tax

Cache County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The City should adopt a final tax rate prior to June 22, which is then submitted to the state for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalty bear interest at 6% above the federal discount rate from January 1 until paid.

Property taxes attach as an enforceable lien on property as they become delinquent. All unpaid taxes levied during the year become delinquent December 1 of the current year.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within sixty days after year end.

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the City in its governmental funds, therefore all annual appropriations lapse at fiscal year end. Project-length financial plans are adopted for all capital project funds.

The City can make adjustments to the adopted budget through public hearings. During the fiscal year, the City made several budget adjustments through a public hearing.

Capitalized Interest

The City capitalizes interest costs and interest earned as part of the cost of constructing various buildings, water and sewer projects when material. Interest is only capitalized in proprietary activities.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the business-type activities considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

- A. Explanation of certain differences between the governments fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 589,346
Accumulated depreciation	<u>(224,422)</u>
Total difference	<u>\$ 364,924</u>

B. Explanation of differences between governmental fund operating statements and the statement of net activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that bond principal is recorded as an expenditure in the governmental funds. The second element states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Principal payments of note	<u>\$ 57,504</u>
Capital outlay	\$ 3,425
Proceeds on sale of asset	(52,381)
Loss on sale of asset	(24,473)
Depreciation expense	<u>(16,674)</u>
Net difference as reported	<u>\$(90,103)</u>

Note 2: Legal Compliance - Budgets/Statutory

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officer so that a budget may be prepared. The budget is prepared by fund, function, and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

The proposed budget is presented to the City council for review at the first scheduled meeting in May. The City council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes to the budget must be within the revenues and reserves estimated as available by the City financial officer or the revenue estimates must be changed by an affirmative vote of a majority of the City council. Within 30 days

of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22 and adoption of budgets is done similarly.

State statute requires that City officers shall not make or incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Note 3: Cash

Deposits and Investments

Deposits and investments for local government are governed by the Utah Money management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$3,701 of the local government's bank balances of \$103,701 were uninsured and uncollateralized.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended June 30, 2006, the local governments had investments of \$750,056 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Note 4: Accounts receivable

River Heights City has accounts receivable as of June 30, 2006 for general, water, and sewer funds as follows:

General fund:		
Garbage	\$ 17,497	
Court	564	
Communication center	2,441	
Storm water	<u>1,261</u>	
 Total general fund		\$ 21,763
Enterprise funds:		
Water:		
Utility payments	<u>32,685</u>	
 Total water fund		\$ 32,685
Sewer:		
Utility payments	<u>16,400</u>	
 Total sewer fund		<u>16,400</u>
 Total enterprise funds		<u>49,085</u>
 Total accounts receivable		<u>\$ 70,848</u>

Note 5: Taxes receivable

River Heights City has taxes receivable as of June 30, 2006, as follows:

Class "C" roads receivable	\$ 11,330
Property tax receivable	76,183
Franchise tax receivable	<u>21,886</u>
 Total	<u>\$ 109,399</u>

Note 6: Restricted cash

The total restricted cash on the balance sheet are comprised of the following cash, cash equivalents and investments:

General fund:		
Impact fees	<u>\$ 4,049</u>	
 Total general fund		\$ 4,049

Capital project funds:		
Capital projects		423,799
Proprietary funds:		
Water fund:		
Revenue bond sinking/reserve	100,809	
Impact fees	<u>13,290</u>	
Total water fund	<u>114,099</u>	
Sewer fund:		
Impact fees	<u>48,822</u>	
Total sewer fund	<u>48,822</u>	
Total proprietary funds		<u>162,921</u>
Total restricted cash		<u>\$ 590,769</u>

Note 7: Accounts payable

Accounts payable consist of amounts incurred and due at June 30, 2006, which have not been paid as follows:

General fund:		
Accounts payable	\$ 29,110	
Payroll and benefits	5,572	
Deferred revenue	<u>76,183</u>	
Total general fund		\$ 110,865
Enterprise funds:		
Water fund:		
Accounts payable	\$ 6,648	
Accrued interest	<u>33,764</u>	
Total water fund		40,412
Sewer fund:		
Accounts payable	<u>2,478</u>	
Total sewer fund		<u>2,478</u>
Total enterprise funds		<u>42,890</u>
Total accounts payable		<u>\$153,755</u>

Note 8: Customer deposits

The Water Fund requires deposits for all new water connections. The deposit is refunded upon termination of service if no balance is owed on the customer account or after two years of current payments, whichever comes first. If an outstanding balance exists at termination, the deposit is first applied to the outstanding balance with any excess refunded. A total of the detailed list of deposits is carried as a current liability on the City records.

Note 9: Reserved fund equity

The amounts reported on the combined balance sheet identified as reserved fund balance and reserved retained earnings and designated fund balance are comprised of the following:

General fund:		
Reserved roads	\$ 11,330	
Reserved impact fees	<u>4,049</u>	
Total general fund		\$ 15,379
Capital project funds:		
Reserved capital projects	<u>423,799</u>	
Total capital project funds		423,799
Enterprise funds:		
Water fund (retained earnings):		
Reserved impact fees	13,290	
Reserved sinking/reserve/bond proceeds	<u>100,809</u>	
Total water fund	<u>114,099</u>	
Sewer fund (retained earnings):		
Reserved impact fees	<u>48,822</u>	
Total sewer fund	<u>48,822</u>	
Total enterprise funds		<u>162,921</u>
Total reserved fund equity		<u>\$ 602,099</u>

Note 10: Deferred compensation plan

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits all eligible employees to defer a portion of their salary until future years. The City's involvement is limited to withholding the amounts elected by employees and remitting those amounts to the investment company.

Note 11: General fixed assets

General fixed asset changes occurring for the year ended June 30, 2006, are as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Land	\$ 255,719	\$	\$ 77,000	\$ 178,719
Buildings and improvements	287,392	3,425	1,495	289,322
Machinery and equipment	101,184			101,184
Infrastructure	<u>18,626</u>	<u>1,495</u>		<u>20,121</u>
Total	<u>662,921</u>	<u>4,920</u>	<u>78,495</u>	<u>589,346</u>
Accumulated depreciation	<u>(207,894)</u>	<u>(16,674)</u>	<u>(146)</u>	<u>(224,422)</u>
NET ASSETS	<u>\$ 455,027</u>	<u>\$ (11,754)</u>	<u>\$ 78,349</u>	<u>\$ 364,924</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 4,074
Streets	4,082
Parks and recreation	<u>8,518</u>
Total depreciation expense	<u>\$ 16,674</u>

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<u>Water fund:</u>				
Fixed assets	\$ 1,777,450	\$ 2,972	\$	\$ 1,780,422
Accumulated depreciation	389,385	45,301		434,686
<u>Sewer fund:</u>				
Fixed assets	515,830			515,830
Accumulated depreciation	413,380	2,896		416,276

Note 12: Capital project funds

The City has established one capital project fund to account for monies set aside for the improvements of the City.

Note 13: Changes in long-term debt

The following is a summary of long-term debt transactions of the City's proprietary fund types for the year ended June 30, 2006:

Bonds payable at July 1, 2005	\$ 790,000
Less: regular payment of principal	<u>(27,000)</u>

Bonds payable at June 30, 2006	<u>\$ 763,000</u>
Due within one year	<u>\$ 29,000</u>

Bonds payable at June 30, 2006 are comprised of the following individual issues:

Water:

\$839,000 water revenue bonds, Series 2001, issued September 1, 2001. Due in annual installments ranging from \$24,000 to \$76,000 until September 1, 2019, plus interest at 5%.

\$ 763,000

The following is a summary of debt service requirements to maturity:

<u>Year Ending</u> <u>June 30</u>	<u>Bonds</u> <u>Outstanding</u>
2007	\$ 67,150
2008	67,700
2009	67,150
2010	79,550
2011	80,250
2012 - 2016	407,500
2017 - 2020	<u>320,800</u>
Total	1,090,100
Less interest	<u>(327,100)</u>
Outstanding principal	<u>\$ 763,000</u>

Note 14: Insurance and bond coverage

As of June 30, 2006, River Heights City has insurance and bond coverage with expiration dates and coverage limits as follows:

<u>Description</u>	<u>Issuer/Policy</u>	<u>Limits</u>	<u>Expiration Date</u>
Commercial general liability	Utah Local Government Trust	\$ 5,000,000	Continuous
Public Officials errors and omissions Auto liability	13190-GL451-2004		
Building and property	Unigard PX809764	\$ 391,300	7-01-06
Automobiles	Unigard BA900004	\$ 40,000	7-01-06
Treasurer	Hartford 34BFBCR4786	\$ 150,000	2-15-07
Treasurer	Hartford 34BPEBD8406	\$ 150,000	9-06-07

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. No liabilities have been included in the current financial statements since none of the risk situations have occurred in the City.

Note 15: Utility users and rates

The River Heights City water utility and sewer funds service both residential and commercial users. As of June 30, 2006, there were the following users in each category:

	Residential	<u>Water</u> 558	<u>Sewer</u> 518
Water rates:			
Standard monthly service	\$ 26.20		
Garbage rates:			
60 gallon residential	\$ 9.40		
90 gallon residential service	\$ 13.25		
Sewer rates:			
Standard monthly service	\$ 13.00		
Storm water:			
Standard monthly service	\$ 1.00		
911:			
Standard monthly service	\$ 2.00		

Note 16: Working Capital

Net working capital for the water and sewer funds is calculated as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Current assets:		
Cash	\$ (74,430)	\$ 443,112
Receivables	32,685	16,400
Less current liabilities:		
Accounts payable	46,712	2,478
Current portion of long-term debt	<u>29,000</u>	<u>—</u>
Net working capital	<u>\$ (117,457)</u>	<u>\$ 457,034</u>

Note 17: Memorandum Totals

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data. Certain prior year balances have been reclassified in order to facilitate comparability with current year balances.

SUPPLEMENTAL SECTION

**CITY OF RIVER HEIGHTS
SUPPLEMENTAL SCHEDULE
SCHEDULE OF IMPACT FEES**

	<u>2006</u>
Beginning Balance:	
Impact Fees - Road	\$ -
Impact Fees - Parks	-
Impact Fees - Water	-
Impact Fees - Sewer	37,693
Additions:	
Impact Fees - Road	1,750
Impact Fees - Parks	3,950
Impact Fees - Water	12,966
Impact Fees - Sewer	9,019
Interest:	
Impact Fees - Road	-
Impact Fees - Parks	99
Impact Fees - Water	324
Impact Fees - Sewer	2,110
Deletions:	
Impact Fees - Road	(1,750)
Impact Fees - Parks	-
Impact Fees - Water	-
Impact Fees - Sewer	-
Ending Balance:	
Impact Fees - Road	-
Impact Fees - Parks	4,049
Impact Fees - Water	13,290
Impact Fees - Sewer	48,822
	<u>\$ 66,161</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
City of River Heights
River Heights, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of River Heights, Utah (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated November 3, 2006.

This report is intended for the information of the City Council and management, and certain legislative bodies and is not intended to be and should not be used by anyone other than these specified parties.

Peterson Alfred Jackson

November 3, 2006



Peterson
Alfred
Jackson

■ Certified Public Accountants
Business Consultants

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
City of River Heights
River Heights, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of River Heights, Utah (the City), for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special test and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received no nonmajor grants during the year.

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Compliance Audit Guide, including:

Public Debt	Justice Courts
Cash Management	C Road Funds
Purchasing Requirements	Liquor Law Enforcement
Budgetary Compliance	Other General Issues
Truth in Taxation and	Impact fees
Property Tax Limitations	Uniform Building Code Standards

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City of River Heights, Utah, complied, in all material respects, with the general compliance requirements identified above, and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Peterson Aured Jackson

November 3, 2006



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▪ Certified Public Accountants
Business Consultants

November 3, 2006

Honorable Mayor and City Council
City of River Heights
River Heights, Utah

Dear Mayor Baker:

In planning and performing our audit of the financial statements of River Heights, Utah (the City), for the year ended June 30, 2006, we developed the following recommendations concerning certain matters related to internal control structure (other than "reportable conditions") and certain administrative and operating matters. These recommendations resulted from our observations made in connection with our audit of the City's financial statements for the year ended June 30, 2006, and are not based on a special study. Our comments and principal recommendations are summarized below.

CURRENT YEAR FINDINGS

Findings: *Expenditures exceeding appropriations.* State law requires that officers and employees of the City shall not incur expenditures in excess of the total appropriation for any department or fund. The City expended excess funds in the parks department and did not budget for a transfer to the Capital Projects Fund.

Recommendations: We recommend that the City monitor expenses throughout the year and make changes to the budget as deemed necessary to be in compliance with State Law.

Management response: The City Council approved a revised budget on June 13, 2006; but, due to an error in predicting the parks department expenses, the newly budgeted amount for the parks department was under funded approximately \$2,250. Also the payoff of the mortgage on a rental house accounted for approximately \$58,000 in the parks, recreation and public property department. The failure to budget for a transfer to the Capital Projects fund was an oversight that will be corrected in the future. A new reporting system has been implemented as of July 1, 2006 which permits each department to track its expenditures each month and we should not exceed our budgeted amounts in the future.

Finding: *Impact fees.* The City has not been allocating interest to the restricted cash balances for impact fees.

Recommendation: Interest should be allocated on a monthly basis for all funds restricted for impact fees.

Management response: The failure to accrue monthly interest on impact fees was an oversight which we will correct immediately.

Finding: Payroll files. During our review of the personnel files for payroll compliance we became aware that some files were missing I-9's.

Recommendation: We recommend that the City update all personnel files to incorporate all needed payroll information.

Management response: The payroll files will be updated to include I-9's on all employees.

Finding: Audit deadline. State law requires that the City submit an audit report within six months of the end of the year. The fiscal year 2004-2005 audit was not completed or submitted by December 31, 2005.

Recommendation: Submit the audit by the required deadline.

Management response: The prior administration was delinquent in filing the audit report for the fiscal year ended June 30, 2005; the current administration filed that report and will file the current year's report in a timely way.

Finding: Water fund balance deficit. The water fund incurred a deficit fund balance in the previous fiscal year and at the end of fiscal year 2005-2006 the fund balance remained in deficit.

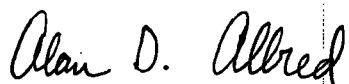
Recommendation: Although the deficit has decreased in the current year due to increase in rates, continue to monitor revenues and expenses in the water fund to continue to reduce the deficit.

Management response: We are aware of the water fund balance deficit which was created in 2005 by a well cave-in that cost over \$100,000 to repair. However, the current rates have provided approximately \$42,000 in increased net assets for 2006 and the deficit should be eliminated in two more years.

In conclusion, we wish to recognize James Brackner, Sheila Lind, and Annette Smith for the excellent services provided to River Heights City. They have been most cooperative in assisting us in the performance of the audit for the 2006 fiscal year. The performance of the River Heights City annual fiscal year audit has been an enjoyable experience for us and we would like to thank the City for the opportunity to serve as independent auditors.

Very truly yours,

PETERSON ALLRED JACKSON

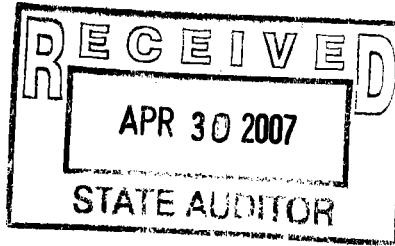


Alan D. Allred, CPA

River Heights City

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Mayor: William Baker
Recorder: Sheila Lind
Treasurer: Annette Smith
Public Works: Kent Parker



City Council
Mary Barrus
Robert Gines
O. Brent Greenhalgh
Kathryn Hadfield
Blake Wright

April 27, 2007

Mr. MacRay A. Curtis, CPA
Director, Local Government Division
State of Utah
East Office Building, Suite E310
PO Box 142310
Salt Lake City, UT 84114-2310

Dear Mr. Curtis,


In response to your letter dated 5 April, 2007, please be advised that Mayor Todd Weston passed away in August 2006 and I was elected by the River Heights City Council to complete his term of office.

The City of River Heights adopted a new reporting system as of 1 July 2006 that tracks expenditures and budgets by departments which will help assure that the budget is not exceeded. The city council will review our budgetary status in May 2007 and, if necessary, will approve a revised budget on June 12, 2007.

The person responsible for the corrective action is Dr. James Brackner who can be reached at 435-752-2646.

If you need more information, please let me know

Sincerely,


William Baker
Mayor